
APPENDIX A
FINANCIAL STATEMENTS

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE
WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Financial Statements

September 30, 1996 and 1995

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Financial Statements

September 30, 1996 and 1995

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Overview

Reporting Entity

The Nuclear Waste Policy Act of 1982 (Public Law 97-425) established the Office of Civilian Radioactive Waste Management (OCRWM) within the U.S. Department of Energy. OCRWM's mission is to develop and manage a federal system for the permanent disposal of spent nuclear fuel from civilian reactors and high-level radioactive waste resulting from atomic energy defense activities in a manner that assures public and worker safety, protects the environment, merits public confidence and is economically viable.

The Nuclear Waste Policy Amendments Act of 1987 (Title V, Public Law 100-203) directed the Secretary of Energy to characterize only the Yucca Mountain site in Nevada to determine if it is suitable for a repository for spent nuclear fuel and high-level radioactive waste.

As of September 30, 1996, the Office of Civilian Radioactive Waste Management employed 2,130 people. This included approximately 210 OCRWM federal staff, 20 federal full-time equivalents (FTEs) at other DOE Headquarters offices, 10 federal FTEs at DOE operations offices, 140 U.S. Geological Survey employees, and 1,754 contractor employees, including employees of national laboratories.

The Office of Civilian Radioactive Waste Management is composed of one management center and two business centers organized to carry out two major projects.

The Yucca Mountain Site Characterization Project, located in Las Vegas, Nevada, oversees the scientific and technical investigation of Yucca Mountain, including:

- Addressing, by 1998, the major unresolved technical questions regarding the site so that an informed assessment can be made of the viability of licensing and constructing a geologic repository at Yucca Mountain;
- Constructing and operating the exploratory studies facility;
- Addressing those repository and waste package design elements that are critical to determining the feasibility and performance of the repository and the engineered barrier system;
- Preparing a Final Environmental Impact Statement to accompany the Secretarial site recommendation, should the site be found suitable, and license application; and
- Submitting a license application for repository construction to the Nuclear Regulatory Commission, should the President recommend and the Congress approve the Yucca Mountain site.

The Waste Acceptance, Storage and Transportation Project, located in Washington, D.C., is primarily responsible for:

- Conducting activities necessary for the Department to take title to and physical possession of spent nuclear fuel and high-level radioactive waste from the owners and generators of these wastes;
- Developing a market-driven waste acceptance and transportation approach that relies on the private sector for implementation; and
- Performing non-site specific design and engineering safety analyses for an interim storage facility.

The Program's management center, located in Washington, D.C., provides program integration and management support to the Director, OCRWM, and to the two business centers. The management center, comprised of the Office of Program Management and Administration and the Office of Quality Assurance, is responsible for program planning and management, technical and regulatory integration, quality assurance, institutional activities, resources and information management, and international waste management activities.

Fiscal Year 1996 Technical Performance

During Fiscal Year 1996, despite a significantly reduced appropriation, OCRWM continued to make notable progress by building on the momentum generated in Fiscal Year 1995 and implementing the management efficiencies described in the Civilian Radioactive Waste Management Program Plan. OCRWM achieved the following five performance measures established for Fiscal Year 1996: issue revised Program Plan, excavate Yucca Mountain to the first Ghost Dance Fault alcove, complete Phase I (design) of the multipurpose canister system, submit to NRC a Topical Safety Analysis Report on the design of a spent nuclear fuel dry transfer system, and develop and issue a Proposed Notice of Policy and Procedures pursuant to Section 180 (c) of the NWPA. With regard to the final performance measure—complete excavation of the tunnel's thermal testing alcove—excavation of the tunnel's thermal test alcove for heater test number one was completed and the test was initiated.

Fiscal Year 1997 Technical Performance Measures

- Complete excavation of Exploratory Studies Facility main five-mile loop and scientific instrumentation alcoves to support studies for a viability assessment of the Yucca Mountain site in September 1998 and subsequent site suitability determination and licensing.
- Submit Topical Safety Analysis Report to the Nuclear Regulatory Commission for a non-site specific Phase I (containerized spent fuel) interim storage facility to maintain a readiness capability should an interim storage site be designated.
- Issue final rule to amend the Department's siting guidelines (10 CFR Part 960) to support a more efficient process for evaluating the suitability of the Yucca Mountain site, as outlined in the revised draft Program Plan.
- Issue Notice of Final Policy and Procedures pursuant to Section 180 (c) of the NWPA, which provides for technical and financial assistance to States and Indian Tribes for

training public safety officials through whose jurisdictions spent nuclear fuel and high-level waste would be transported, in preparation for an orderly transportation activity.

- Carry on collaboration with the nuclear utilities and other stakeholders to resolve issues and to develop the management and logistical capability in the private sector to address the Department's 1998 waste acceptance obligation.

Financial Performance Measures

OCRWM's primary financial goal is to ensure full cost recovery, as required by the NWPA. The critical financial performance measure is whether appropriate actions are taken to support this goal.

Full cost recovery is based on the balance between program cost and income. The Program's cost was estimated in the "Analysis of the Total System Life-Cycle Cost of the Civilian Radioactive Waste Management Program" report, dated September 1995. A Nuclear Waste Fund Fee Adequacy Report was completed in October 1996, which indicated that projected fee income will be sufficient, but not excessive, to cover the Program's costs over the life of the Program.

Program funding comes from the Nuclear Waste Fund (NWF) and the Defense Nuclear Waste Disposal appropriation. The NWF consists of fees paid by the owners and generators of spent nuclear fuel, in accordance with provisions of their contracts with the Department of Energy (DOE) for disposal services. Nuclear Waste Fund assets in excess of those appropriated to pay program costs are invested in U.S. Treasury securities. The Defense Nuclear Waste Disposal appropriation was established by the Congress to fund the cost of disposal of high-level radioactive waste resulting from atomic energy defense activities. As of September 30, 1996, cumulative accrued revenue from fees included the Defense Nuclear Waste Disposal appropriation and totaled approximately \$10.1 billion, and cumulative interest earnings and other accrued revenue totaled approximately \$4.515 billion. Cumulative expenses from appropriations for the Program, the Nuclear Regulatory Commission, the Office of the Nuclear Waste Negotiator and the Nuclear Waste Technical Review Board, totaled approximately \$5.096 billion.

Other measures of OCRWM's financial performance include whether late payments by contract holders result in lost interest and whether excess funds are invested promptly and prudently. One late payment of \$2,387,777 resulted in no lost interest. Three underpayments totaling \$74,482 resulted in lost interest to the Fund amounting to \$3,407. Action by the Contracting Officer on the one late payment and three underpayments is in process. A review of daily investment activities indicated a single occurrence of failure to invest \$223,000 in a timely manner, which resulted in lost interest in the amount of \$403.

As of September 30, 1996, the U.S. Treasury securities held by the Nuclear Waste Fund had a market value of \$5.9 billion. The net income from investments for fiscal year 1996 was \$409 million, including \$376 million in interest earnings and \$33 million in net gains on sale of

securities. Over the last year, based on market value, OCRWM's Nuclear Waste Fund investments returned 5.15 percent compared to 3.97 percent for the average intermediate-term Treasury mutual fund.

Summary Findings

Despite the unanticipated 43 percent reduction in the Program's Fiscal Year 1996 appropriation, compared to the Fiscal Year 1995 funding level, OCRWM maintained significant progress during Fiscal Year 1996 toward key long-term goals. A draft revision of the 1994 Program Plan was issued in May 1996, to allow OCRWM to manage the reduced funding and to regain a strategy that is consistent with the intent of the Program's enabling legislation, the Administration's policy for the Program, and the realities of the budget. The draft revised plan draws upon the knowledge gained through scientific investigations and engineering design activities to update the technical and regulatory elements of OCRWM's site characterization program at Yucca Mountain, NV. It defines three near-term objectives designed to maintain momentum toward a national decision on the geologic disposal option:

- Update the regulatory framework in Fiscal Year 1997 for evaluating the suitability of Yucca Mountain;
- Complete a viability assessment of the Yucca Mountain site in Fiscal Year 1998; and
- If the site is subsequently determined to be suitable, recommend it to the President as the repository site in 2001, and submit a license application to the Nuclear Regulatory Commission (NRC) in 2002.

All major milestones for 1996 which were identified in the draft revised Program Plan have been completed. With adequate funding and an updated regulatory process for the evaluation of site suitability and repository licensing, OCRWM is confident that, if the site is suitable, the target for submittal of a license application to the Nuclear Regulatory Commission can be achieved.

Limitations of the Financial Statements

The accompanying financial statements were prepared to report the financial position, results of operations and cash flows of the Nuclear Waste Fund and the Defense Nuclear Waste Disposal appropriation, pursuant to requirements of the NWPA, as amended. While the statements have been prepared from the books and records of the NWF and the Defense Nuclear Waste Disposal appropriation, in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they relate to the Nuclear Waste Fund and the Defense Nuclear Waste Disposal appropriation; that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation; and that the payment of all liabilities, other than those resulting from contractual obligations, can be abrogated by the U.S. Department of Energy.

**Peat Marwick LLP**

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Financial Statements

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the accompanying statements of financial position of the Nuclear Waste Fund (NWF) as of September 30, 1996 and 1995, and the related statements of operations, and cash flows for the years then ended and cumulatively from inception (January 7, 1983) to September 30, 1996. These financial statements are the responsibility of the NWF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the U.S. General Accounting Office; and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nuclear Waste Fund at September 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended and cumulatively from inception (January 7, 1983) to September 30, 1996, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 10, 1997 on our consideration of the NWF's internal control structure and on its compliance with laws and regulations.



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Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in management's Overview is not a required part of the basic financial statements but is supplementary information required by Office of Management and Budget Bulletin 94-01, *Form and Content of Agency Financial Statements*. We considered whether this information is materially inconsistent with the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion on it. The performance information included in the Overview is addressed in our auditors' report on the internal control structure in accordance with OMB Bulletin 93-06.

As discussed in note 2 to the financial statements, the NWF implemented the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, retroactively as of October 1, 1994.

This report is intended for the information of the management of the NWF and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

January 10, 1997, except as to note 13,
which is as of January 31, 1997

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE
MANAGEMENT
NUCLEAR WASTE FUND**

Statements of Financial Position

September 30, 1996 and 1995

(Dollars in thousands)

Assets	1996	1995
Entity assets:		
Intragovernmental assets, current:		
Fund balance with Treasury	\$ 148	(8,946)
Investments (note 3)	5,897,756	5,283,996
Current portion of accounts receivable:		
Receivable from Department of Energy (notes 2 and 11)	216,312	252,688
kWh fees (note 4)	10,314	5,734
Accrued investment interest (note 3)	103,071	105,456
Other intragovernmental	-	135
Governmental assets, current:		
Current portion of accounts receivable from utilities (note 4):		
kWh fees	139,676	143,665
Advances and prepayments	675	134
Other governmental	80	72
Intragovernmental assets, long-term:		
Long-term portion of accounts receivable from Department of Energy (notes 2 and 11)	871,000	849,600
Governmental assets, long-term:		
Long-term portion of accounts receivable (note 4):		
One-time spent fuel fees	880,462	881,130
Interest on one-time spent fuel fees	1,189,144	1,083,710
Capital equipment, net (note 6)	51,092	56,341
Total assets	\$ 9,359,730	8,653,715
Liabilities and Net Position		
Liabilities covered by budgetary resources:		
Intragovernmental liabilities, current:		
Accounts payable	\$ 3,498	7,399
Other funded liabilities	208	362
Governmental liabilities, current:		
Accounts payable	8,125	517
Other governmental:		
Accrued payroll and benefits	4,812	4,720
Other	26,543	32,515
Intragovernmental liabilities, long-term:		
Deferred fees revenue	1,081,857	1,095,646
Governmental liabilities, long-term:		
Deferred fees revenue	5,376,965	4,903,076
Deferred investment revenue	2,725,690	2,316,696
Contract holdback	460	645
Total liabilities covered by budgetary resources	9,228,158	8,361,576
Liabilities not covered by budgetary resources:		
Governmental liabilities:		
Accrued leave	1,539	1,562
Other liabilities	11,627	13,235
Total liabilities not covered by budgetary resources	13,166	14,797
Total liabilities	9,241,324	8,376,373
Net position (note 7):		
Unexpended appropriations (note 7)	155,977	96,666
Invested capital (note 7)	51,092	56,341
Future funding requirements (note 7)	(12,992)	(14,797)
Total net position before unrealized gain (loss)	194,077	138,210
Unrealized gain (loss) on investments available for sale	(75,671)	139,132
Total net position	118,406	277,342
Contingencies (notes 4 and 12)		
Total liabilities and net position	\$ 9,359,730	8,653,715

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE
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Statements of Operations

September 30, 1996 and 1995
and cumulatively from January 7, 1983, date of inception to September 30,
1996

(Dollars in thousands)

	1996	1995	Cumulative
Revenue:			
Revenue from fees (note 4):			
One-time spent fuel fees:			
Public	\$ (24)	1,616	2,180,229
Intragovernmental	-	-	156,866
kWh fees:			
Public	603,816	607,643	6,387,630
Intragovernmental	31,884	19,613	204,234
Defense high-level waste fees, intragovernmental (note 2)	84,400	412,406	1,165,886
Interest on one-time spent fuel fees, public (note 4)	106,144	108,492	1,218,101
Interest, intragovernmental:			
Income on investments	375,519	335,463	2,612,746
Defense high-level waste fees (note 2)	52,000	168,000	448,000
Other revenue -- net gain on sale of investments	33,519	5,239	236,032
Total revenue and other financing sources	1,287,258	1,658,472	14,609,724
Less change in deferred revenue	869,094	1,095,357	9,184,512
Excess of revenue and financing sources over change in deferred revenue	418,164	563,115	5,425,212
Expenses (note 13):			
Program expenses:			
First repository	252,750	387,091	3,509,712
Second repository	20	-	108,908
Monitored retrievable storage	29,496	34,243	331,352
Program support	65,547	95,232	982,062
Transfer appropriations (note 9)	13,461	25,664	164,419
Interest (notes 2 and 5)	1,023	313	134,682
Total expenses	362,297	542,543	5,231,135
Excess of revenue and other financing sources over expenses and change in deferred revenue	55,867	20,572	194,077
Net position, beginning of year	277,342	117,638	-
Change in unrealized gain (loss) on investments available for sale	(214,803)	139,132	(75,671)
Excess of revenue and other financing sources over expenses and change in deferred revenue	55,867	20,572	194,077
Net position, end of year	\$ 118,406	277,342	118,406

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE
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Statements of Cash Flows

September 30, 1996 and 1995
and cumulatively from January 7, 1983, date of inception to September 30,
1996

(Dollars in thousands)

	1996	1995	Cumulative
Cash flows from operating activities:			
Excess of revenue and other financing sources over expenses and change in deferred revenue	\$ 55,867	20,572	194,077
Adjustments affecting cash flows:			
Increase in accounts receivable	(90,381)	(546,405)	(3,306,908)
(Increase) decrease in other assets	1,971	(9,643)	(103,825)
Increase (decrease) in accounts payable	3,707	(8,956)	11,623
Decrease in amount due to utilities	-	(22,698)	-
Increase (decrease) in other liabilities	(7,850)	9,900	31,953
Increase in deferred revenue	869,094	1,095,357	9,184,512
Depreciation expense	8,754	6,513	69,720
Amortization of premiums and accretion of discounts on investments	46,406	42,511	498,681
Net gain on sale of investments	(33,519)	(5,239)	(236,032)
Non-fund adjustments	(1,096)	(746)	42,966
Net cash provided by operating activities	852,953	581,166	6,386,767
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	1,368,949	424,628	8,736,534
Purchases of investments	(2,210,443)	(1,000,920)	(14,972,653)
Purchases of capital equipment	(2,365)	(15,782)	(150,500)
Net cash used in investing activities	(843,859)	(592,074)	(6,386,619)
Cash flows from financing activities:			
Borrowings from U.S. Treasury	-	-	264,964
Repayments on loans from U.S. Treasury	-	-	(264,964)
Borrowings from DOE for capital equipment	-	-	9,739
Repayments on loans from DOE for capital equipment	-	-	(9,739)
Net cash provided by financing activities	-	-	-
Net cash provided by (used in) operating, investing, and financing activities	9,094	(10,908)	148
Fund balances with U.S. Treasury, beginning	(8,946)	1,962	-
Fund balances with U.S. Treasury, ending	\$ 148	(8,946)	148

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

September 30, 1996 and 1995

(Dollars in thousands unless otherwise noted)

(1) Legislative Background

The Nuclear Waste Policy Act (NWPAct) was signed into law on January 7, 1983. The NWPAct establishes a framework for the financing, siting, licensing, operating and decommissioning of one or more mined geologic repositories for the Nation's spent nuclear fuel and high-level radioactive waste which is to be carried out by the Department of Energy's (DOE) Office of Civilian Radioactive Waste Management. In addition, the NWPAct contains other provisions including:

Assigning responsibility for the full payment of disposal cost to the owners and generators of high-level waste and spent nuclear fuel and, accordingly, creating a special Nuclear Waste Fund (NWF) within the Treasury of the United States.

Providing for contracts between the DOE and the owners and generators of spent nuclear fuel and high-level radioactive waste pursuant to which DOE is to take title to the spent nuclear fuel or high-level radioactive waste as expeditiously as possible, following commencement of repository operations and, in return for payment of fees established by the NWPAct, to begin disposal of the spent nuclear fuel or high-level radioactive waste not later than January 31, 1998.

Requiring evaluation of the use of civilian disposal capacity for the disposal of high-level radioactive waste resulting from atomic energy defense activities (defense waste). In April 1985, the President notified DOE of his determination that a separate defense waste repository was not necessary and directed DOE to proceed with arrangements for disposal of such waste. Fees, equivalent to those paid by commercial owners, must be paid for this service by the Federal government.

On December 22, 1987, the President signed into law the Budget Reconciliation Act Subtitle A of Title-V of which contained amendments to the NWPAct of 1987. The legislation directed DOE to characterize only the Yucca Mountain site in Nevada as a candidate site for the first repository.

The legislation also provided for the termination of site-specific activities at all candidate sites other than the Yucca Mountain site, within 90 days of enactment, and for phasing out, not later than 6 months after enactment, all research programs in existence designed to evaluate the suitability of crystalline rock as a potential repository host medium. In the event that the Yucca Mountain site proves unsuitable for use as a

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(Dollars in thousands unless otherwise noted)

(1) Continued

repository, the legislation requires DOE to terminate site-specific activities and report to Congress.

Further, the legislation authorized DOE to pay interest on overpayments of kilowatt-hour (kwh) fees consistent with the December 5, 1985 ruling of the United States Court of Appeals as discussed in note 4. Interest on these overpayments of kwh fees was fully paid or credited as of September 30, 1990.

Additionally, the legislation annulled and revoked DOE's MRS proposal, submitted to Congress on March 31, 1987, to construct an MRS facility in Oak Ridge, Tennessee. However, the legislation authorized DOE to site, construct and operate one MRS facility subject to certain conditions.

Although the Amendments Act prohibits the selection of an MRS site through a DOE-directed site-survey process until the repository site is recommended to the President, it allowed for expedited siting to proceed via a Nuclear Waste Negotiator, authorized to negotiate a proposed agreement with a State or Indian Tribe that would agree to host a repository or MRS facility. The Negotiator was to submit to Congress proposed agreements.

In fiscal year 1994, the Energy and Water Development Act provided no funds for grants to potential MRS hosts. The Negotiator continued his efforts in fiscal year 1994 but did not identify a volunteer host. The Office of the Nuclear Waste Negotiator expired in January 1995.

On March 16, 1988, a Petition for Review was filed before the United States Court of Appeals for the District of Columbia regarding the calculation of net generation in determining kwh fees to be paid by the utilities. The petition sought judicial review of DOE's treatment of transmission and distribution losses in calculating net generation. On March 17, 1989, the Court decided that the fee should be based on electricity generated and sold. On September 7, 1990, DOE issued a Notice of Proposed Rulemaking to change the basis of the fee, consistent with the Court ruling. In November 1990, Congress granted approval for DOE to pay or credit interest to the utilities on the kwh overpayments. The Department prorated the credits over a four-year payment period from fiscal year 1992 through fiscal year 1995.

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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(2) **Significant Accounting Policies**

Basis of Presentation—These financial statements include all activity related to the NWF and the Defense Nuclear Waste Disposal appropriation used for nuclear waste disposal activities.

Basis of Accounting—In 1991, GAO participated with the Office of Management and Budget (OMB) and the Treasury Department in the establishment of the Federal Accounting Standards Advisory Board (FASAB). The FASAB was organized to make recommendations regarding the accounting standards to be implemented by departments and agencies. The resulting standards will be concurrently issued by GAO and OMB. In the interim, and in accordance with FASAB's recommendation that agencies continue to prepare financial statements using their current accounting policies, the NWF continues to prepare its financial statements based upon generally accepted accounting principles. Transactions are recorded on an accrual accounting basis and a budgetary basis.

Revenue Recognition—A one-time fee (see note 4) was recorded by the NWF as of April 7, 1983 for spent nuclear fuel generated prior to that date. Fees based upon kwh of electricity generated by civilian nuclear reactors on or after April 7, 1983 are accrued as earned. All fees are recognized as revenue to the extent of expenses incurred. Revenue in excess of current expenses and unexpended appropriations is deferred; deferred revenue is not segregated between federal and nonfederal activities. The life cycle of the program is expected to extend over a period of nearly 100 years.

The NWPA requires an annual evaluation of the adequacy of fees to ensure full cost recovery and provides for adjustment of such fees, as needed, with the approval of Congress. As of September 30, 1996, the total-system life cycle cost (TSLCC) for a surrogate single repository system without interim storage was estimated at \$33,100,000. Yucca Mountain, Nevada, was assumed as the location for the repository since it is the only site that the Department is authorized by law to characterize, but this does not constitute a predecision that Yucca Mountain is an acceptable site. Additional scenarios including a two-repository system with interim storage were not costed since the Department does not have current cost information or designs for a second repository and interim storage.

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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(2) **Continued**

To estimate the share of the total-system costs that should be allocated to the disposal of defense high-level waste in the civilian repositories, the methodology announced by the DOE in the *Federal Register* in August 1987 was used. Estimates of the defense-waste share of costs, as of September 1996, are approximately \$6,432,000.

To date, OCRWM has not entered into an agreement with the Office of Environmental Management for payment of fees and interest to the NWF to pay DOE's defense high-level waste share of costs. OCRWM has estimated that approximately \$1,614,000 of costs incurred to date by the NWF, including interest of \$448,000, assessed from passage of the NWPA (January 1983), are attributable to defense high-level waste based on the methodology previously published. Of this total amount, DOE has paid or funded \$527,000 as of September 30, 1996. (See also note 11.) Total revenue from defense high-level waste fees and interest was \$136,000 and \$580,000 in 1996 and 1995, respectively.

For fiscal years 1996 and 1995, Congress appropriated \$248,400 and \$129,430, respectively, from the Defense Nuclear Waste Disposal appropriation to be used for nuclear waste disposal activities. Of this \$248,400, \$85,000 was restricted to obligation and expenditure on an interim storage facility. None of this restricted portion was used in fiscal year 1996 as statutory authority for an interim storage facility was not enacted. As of September 30, 1996, OCRWM had used the remaining fiscal year 1995 appropriation of \$4,250, and \$147,088 of the \$163,400 unrestricted current year appropriation. Also, at September 30, 1996, OCRWM had obligated \$16,312 of the fiscal year 1996 appropriation for payment in 1997.

For fiscal year 1997, Congress has appropriated \$200,000 from the Defense Nuclear Waste Disposal appropriation to be used for nuclear waste disposal activities.

Investments – In 1996, the NWF implemented Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). The provisions of SFAS No. 115 have been applied to the periods presented.

Under this statement, investments, which consist of U.S. Treasury securities, are classified as available-for-sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of net position.

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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(2) Continued

Capital Equipment—Equipment is capitalized at cost if the initial acquisition cost is \$5 or more and if the useful life is greater than 2 years. Capital equipment is depreciated on a straight-line basis over the estimated useful lives of the assets which range from 5 to 30 years.

Maintenance costs are borne by the NWF for equipment either on loan from non-NWF programs or shared with other programs.

Accounts Receivable—Payment of accounts receivable will not be complete until the NWF starts accepting waste. The NWF is not obligated to accept waste without payment of fees.

Liabilities—Liabilities represent the amount of monies or other resources that are likely to be paid by the NWF as the result of a transaction or event that has already occurred. However, no liability can be paid by the NWF absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources and there is no certainty that the appropriation will be enacted. Also, liabilities of the NWF arising from other than contracts can be abrogated by the government, acting in its sovereign capacity.

Accrued Annual Leave—To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Tax Status—The NWF, as a part of the Department of Energy which is a federal agency, is not subject to federal, state, or local income taxes.

Presentation of Prior Year's Financial Statements—Certain 1995 amounts have been reclassified to conform with the 1996 presentation.

(3) Investments

For the years ended September 30, 1996 and 1995 the NWF received proceeds of \$1,369 and \$425, respectively, for the sale of securities. The realized gain on the sale using the specific identification method for the years ended September 30, 1996 and 1995 was 33,519 and \$5,239, respectively. From September 30, 1995 to 1996, the change in net

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND

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(Dollars in thousands unless otherwise noted)

(3) Continued

Investments consisting of U. S. Treasury securities held as of September 30 of each year consisted of the following:

	1996			1995	
	Cost	Amortized (premium) discount, net	Investments, net	Investments at fair value	Investments at fair value
Intragovernmental securities available for sale:					
Marketable	\$ 553,087	(11,405)	541,682	544,094	128,157
Due after 1 year but within 5 years	1,362,883	(56,522)	1,306,361	1,325,376	2,319,804
Due after 5 years but within 10 years	1,327,037	(47,450)	1,279,587	1,227,210	1,510,839
Due after 10 years	2,859,286	(13,490)	2,845,796	2,801,076	1,325,196
	\$ 6,102,293	(128,867)	5,973,426	5,897,756	5,283,996

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(3) Continued

unrealized holding gain (loss) on available-for-sale securities included in net position was (\$214,803).

Accrued interest receivable on investments as of September 30, 1996 and 1995, totaled \$103,071 and \$105,456, respectively.

(4) Receivables Due from Utilities

All owners and generators of civilian high-level waste and spent nuclear fuel have entered into contracts with the DOE for nuclear waste disposal services and for payment of fees to the NWF.

The NWPA specifies two fees to be paid to the NWF for disposal services: (a) a one-time charge per kilogram of heavy metal in solidified high-level waste or spent nuclear fuel existing prior to April 7, 1983; and (b) a one mill per kwh fee on all net electricity generated by civilian nuclear power reactors after April 7, 1983. The Secretary shall annually review the fees established. In the event the Secretary determines either insufficient or excess revenue is being collected, the Secretary shall propose an adjustment to the fee to ensure full cost recovery. The contracts between DOE and the owners and generators of the waste provide three options for payment of the one-time spent fuel fee, one of which must have been selected by June 30, 1985, or within two years of contract execution. The options were:

Payment of the amount due, plus interest earned from April 7, 1983, in 40 quarterly installments, with the final payment due on or before the first scheduled delivery of spent fuel to DOE;

Payment of the amount due, plus interest from April 7, 1983, in a single payment, any time prior to the first delivery of spent fuel to DOE;

Payment of the amount due, any time prior to June 30, 1985, or two years after contract execution, in the form of a single payment, with no interest due.

Under options (1) and (2), interest accrues from April 7, 1983, to date of first payment, at the 13-week Treasury bill rate compounded quarterly. Under option (1), beginning with the first payment, interest is calculated at the 10-year Treasury note rate in effect at the time.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(4) Continued

During 1996 and 1995, payments or adjustments of one-time spent fuel fees by owners and generators of civilian high-level waste and spent nuclear fuel consisted of:

	1996		1995	
	Payments	Adjustments	Payments	Adjustments
Option (1)	\$ -	-	-	-
Option (2)	667	-	-	(1,616)
Option (3)	-	(24)	-	-
	\$ 667	(24)	-	(1,616)

Public and intragovernmental receivables from utilities at September 30 of each year were as follows:

	1996	1995
Current portion of accounts receivable:		
Kilowatt-hour fees:		
Governmental	\$ 139,676	143,665
Intragovernmental	10,314	5,734
Total current portion of accounts receivable	<u>149,990</u>	<u>149,399</u>
Long-term portion of accounts receivable:		
Governmental one-time spent fuel fees:		
Option (1)	143,531	143,531
Option (2)	736,931	737,599
	<u>880,462</u>	<u>881,130</u>
Governmental interest on one-time spent fuel fees:		
Option (1)	194,590	177,279
Option (2)	994,554	906,431
	<u>1,189,144</u>	<u>1,083,710</u>
Total long-term accounts receivable from utilities	<u>2,069,606</u>	<u>1,964,840</u>
Total accounts receivable from utilities	\$ <u>2,219,596</u>	<u>2,114,239</u>

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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(5) Amounts Due to Utilities

On December 5, 1985, the United States Court of Appeals for the District of Columbia ruled against the DOE regarding the calculation of kwh fees. Consistent with the ruling, utilities were requested to recalculate their fees since April 7, 1983, and submit their request for reimbursement to NWF for approval and subsequent refund or credit against kwh fees.

On December 31, 1991, DOE issued the final rule amending the calculation of kwh fees effective January 30, 1992. The utilities were requested to submit revised calculations, and the Department advised each of the utilities that it would implement the refund process for previous overpayments, plus interest, through credits against future quarterly payments or through refunds for those utilities no longer generating. The refund process was to be completed in two phases. In the first phase, principal overpayments and accrued interest through March 31, 1992, were made available for credit during the period from July 1, 1992 through September 30, 1996. In the second phase, any remaining principal and additional accrued interest for the period April 1, 1992 through September 30, 1996, was calculated and made available for credit during fiscal year 1996. The credits were prorated over a four-year payment period. Interest is payable on the cumulative unpaid overpayment balance, plus accrued interest thereon. Interest is calculated based on the average 91 day Treasury bill auction bond equivalent rate for each calendar quarter.

OCRWM is in the process of finalizing verification of the revised calculations submitted by the utilities. Estimated fees to be credited total \$293,548 of which \$1,231 and \$2,089 have been charged (credited) against kwh fees for 1996 and 1995, respectively. There was no liability for unpaid fees as of September 30, 1996 and 1995.

Interest expense for 1996 and 1995 attributable to these overpayments was \$1,023 and \$313, respectively.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(6) Capital Equipment, Net

Capital equipment and related accumulated depreciation consisted of the following at September 30, 1996 and 1995:

	1996	1995
Capital equipment	\$ 100,323	94,117
Work-in-progress	90	1,553
	100,413	95,670
Less accumulated depreciation	(49,321)	(39,329)
Net book value	\$ 51,092	56,341

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(7) Net Position

	1996		1995	
	Trust fund	Appropriated fund	Trust fund	Appropriated fund
		Total		Total
Unexpended appropriations:				
Unobligated, available	\$ 19,106	22,500	13,160	-
Unobligated, unavailable	-	85,000	-	-
Undelivered orders	41,017	48,477	83,506	-
Invested capital	51,092	51,092	56,341	-
Future funding requirements	(12,992)	(12,992)	(14,797)	-
Total net position before unrealized gain (loss)	98,223	194,077	138,210	-
Unrealized gain (loss) on investments available for sale	(75,671)	(75,671)	139,132	-
Total net position	\$ 22,552	118,406	277,342	-

Trust fund activity represents net position activity in the NWFF while appropriated funds activity represents net position activity in the Defense Nuclear Waste Disposal appropriation.

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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(8) Financing

The NWPA provides that the NWF consist of:

Unexpended balances available on the date of enactment for functions or activities incident to the disposal of civilian high-level radioactive waste or civilian spent nuclear fuel.

Appropriations made by Congress

Receipt of fees

Investment income from authorized investments

Expenditures may be made from the NWF subject to appropriations which require triennial authorization. Investments may be made in U.S. obligations from funds in excess of current needs. If, at any time, monies available in the NWF are insufficient to discharge responsibilities under the NWPA, borrowings may be made from the U.S. Treasury. The NWPA limits the NWF from incurring expenditures, entering into contracts and obligating amounts to be expended, except as provided in advance by appropriation Acts.

(9) Transfer Appropriations

During 1996 and 1995, Congress authorized certain funds to be transferred directly from the NWF to various entities to pay for necessary expenses of the NWF. Amounts transferred consisted of:

	1996	1995	Cumulative
Nuclear Regulatory Commission	\$ 11,000	22,000	138,583
Nuclear Waste Technical Review Board	2,531	2,664	18,697
Office of the Nuclear Waste Negotiator	(70)	1,000	7,139
	\$ 13,461	25,664	164,419

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(Dollars in thousands unless otherwise noted)

(9) Continued

The Nuclear Waste Technical Review Board (Board) and the Office of the Nuclear Waste Negotiator (Negotiator) were established under the Amendments Act. The Board, an independent establishment within the executive branch of the U.S. government, was established to evaluate the technical and scientific validity of activities undertaken by the Secretary, including site characterization activities and activities relating to the packaging or transportation of high-level radioactive waste or spent nuclear fuel. The Negotiator, who was appointed by the President and approved by the Senate, was to seek a State or Indian Tribe willing to host a repository or MRS facility, at a technically qualified site, on reasonable terms. The Office of the Nuclear Waste Negotiator expired in January 1995 and \$70 of the fiscal year 1995 appropriation was transferred back to the Nuclear Waste Fund in fiscal year 1996.

(10) Pension Plan

DOE employees working in OCRWM are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). As required by law, employees make contributions to the plans based on a percentage of their salaries with an amount contributed by OCRWM in accordance with the required retirement system regulations. Data regarding the CSRS and the FERS actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not available to individual departments and agencies and therefore are not disclosed by the NWF. As such, reporting is the responsibility of the U.S. Office of Personnel Management.

The total pension expense for 1996 and 1995 was \$1,406 and \$1,410, respectively.

(11) Transactions With Other Government Agencies

The NWPA established the Office of Civilian Radioactive Waste Management within DOE to carry out the provisions of the NWPA and created a separate fund in the Treasury of the United States. All of the investment and borrowing powers of the NWF are limited to transactions with the U.S. Treasury. In discharging its obligations under the NWPA, DOE contracts for services with numerous contractors including other federal government agencies. Further, significant administrative services are provided by DOE.

As of September 30, 1996 and 1995, the NWF owed other government agencies \$2,087 and \$6,222, respectively, for services and costs provided to the NWF. For the years

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND

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(Dollars in thousands unless otherwise noted)

(11) Continued

ended September 30, 1996 and 1995, the NWF had incurred costs of \$16,527 and \$32,176, respectively, for services and costs provided by other government agencies.

As discussed in note 2, the NWF is owed \$1,087,312 as of September 30, 1996 from DOE for the disposal of defense high-level waste in civilian repositories. This receivable is comprised of a current portion of \$216,312 and long-term portion of \$871,000.

(12) Contingencies

The DOE is currently involved in various litigation arising from its activities. Although certain proceedings are at a preliminary stage, management does not expect that resolution of this litigation will have a material effect on the financial position of the NWF.

The NWPA provides for payments-equal-to-taxes each fiscal year to the State of Nevada and any affected unit of local government equal to the amount they would receive if authorized to tax federal site characterization activities at a candidate repository site (prior to the 1987 amendments, the NWPA provided for payments-equal-to-taxes to eligible states and affected units of local governments). On August 27, 1991, the DOE published a Notice of Interpretation and Procedures in the *Federal Register* outlining the implementation of Section 116(c)(3)(A) and 118(b) (4) of the NWPA.

During fiscal year 1994, the DOE entered into an agreement with Nye County, Nevada, for \$37,900 of payments-equal-to-taxes, covering the period from May 1986 through June 1999. The DOE has made payments totaling \$20,200 through September 30, 1996, and has accrued an additional \$8,954 attributable to the tax period ending as of September 30, 1996.

In fiscal year 1992, the DOE made a payment of \$771 to Benton County, Washington, for payments-equal-to-taxes. In November 1993, Benton County filed an appeal increasing its request to \$45,752. On December 19, 1996, the Department's Office of Hearings and Appeals issued a decision and order in this case. The decision provides that the parties shall submit a joint report to the Office of Hearings and Appeals by March 31, 1997, explaining their progress toward a final resolution on the amount of Benton County's PETT. The report is to set forth the status of the negotiations and explain all numbers agreed upon. If the parties are unable to reach a final resolution, the Office of Hearings and Appeals will proceed to issue a supplemental order fixing the amount of the PETT grant.

UNITED STATES DEPARTMENT OF ENERGY
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(Dollars in thousands unless otherwise noted)

(12) Continued

The matter has thus been remanded to the Department's Richland Operations Office for negotiations with Benton County. The amount of interest on the Benton County PETT is to be calculated through March 31, 1997. Because it is not presently possible to quantify the effect this case will have on the NWF, no accrual of costs related thereto has been made.

(13) DOE's Waste Acceptance Obligation

The DOE has acknowledged that it will not have a high-level nuclear waste repository on line by the January 31, 1998 date specified in the NWPA of 1982, as amended. The Indiana Michigan Power Company and intervenors, other power companies and several states, filed petitions on May 26, 1995, challenging the Department's interpretation of the Nuclear Waste Policy Act (NWPA) that it was not obligated to accept spent nuclear fuel and high-level radioactive waste by January 31, 1998, in the absence of a facility constructed and licensed under the Act.

On July 23, 1996, the U.S. Court of Appeals for the District of Columbia Circuit concluded that the NWPA creates an obligation in the Department, in return for the utilities' payment of fees under the Act, to start disposing of spent nuclear fuel no later than January 31, 1998, regardless of the availability of a repository or interim storage facility. Because the Department has not yet defaulted on its statutory or contractual obligations with the utilities, the court found it premature to determine an appropriate remedy or how the disposal obligation might be met, in the absence of a repository.

The Department has decided not to seek review of the decision by the Supreme Court of the United States and is reviewing its options on how to proceed. Because a course of action has not been determined, it is not possible to quantify the effect this case will have on the Fund and no accrual of costs related thereto has been made.

In addition to the suit described above, on January 31, 1997, a coalition of 46 state agencies and a coalition of 36 entities filed petitions in the U.S. Court of Appeals for the District of Columbia Circuit seeking review of DOE's alleged breach of its duty to begin disposal of spent nuclear fuel (SNF) beginning January 31, 1998. While the lawsuits do not seek monetary damages, the coalitions seek to suspend future payments to the Nuclear Waste Fund, and place their payments in an escrow fund until DOE commences disposing of the spent nuclear fuel. The Department will vigorously defend the suit, but it is premature to predict what effect these lawsuits will have on the Fund.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

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(14) Expenses by Object Classification

The NWF's expenses by object classification for fiscal years 1996 and 1995 consisted of:

	1996	1995
Personal services and benefits	\$ 20,265	20,462
Contractual services	312,260	460,634
Other	15,288	35,470
Interest	1,023	313
Transfer appropriations (note 9)	13,461	25,664
Total expenses	\$ 362,297	542,543

(15) Additional Waste

In November 1993, DOE's Office of Environment, Safety and Health issued a report that identified additional waste owned by the Department, from both commercial and defense projects, that may require disposal in a civilian repository. The Office of Civilian Radioactive Waste Management has been in the process of evaluating the additional liability to the Nuclear Waste Fund for disposal of these waste forms. The need to consider additional waste forms has raised new issues that complicate cost projections as the volume of wastes requiring disposal, and the corresponding cost of regulatory compliance, facility and equipment designs, and cost of operations are unknown at this time. The range of costs (\$200,000 to \$500,000) presented in the notes to the Office of Civilian Radioactive Waste Management's financial statements as of September 30, 1995 are incomplete and have not been revised. Therefore, no amounts have been recorded in the accompanying financial statements as of September 30, 1996, because the amount of fees attributable to this waste is not reasonably able to be estimated at this time.

High-level radioactive waste owned by the State of New York and currently stored at the West Valley Demonstration Project site, is of a type that may be disposed of in a Federal repository if the State of New York has entered into a contractual agreement with the Department of Energy, similar to the provisions of 10 CFR Part 961. To date, the State of New York has not entered into such an agreement. If the methodology announced by the Department in the Federal Register in August 1987, for the calculation of the defense high-level radioactive share of program costs were used, the share of total-system costs allocated to the disposal of West Valley high-level waste would be approximately \$114 million. This amount has not been recorded in the financial statements as of September 30, 1996, because, at this time, the Department of Energy is not legally required to take title to or dispose of the West Valley high-level waste, nor is the State of New York required to enter into a disposal contract with the Department if it does not plan to dispose of the high-level waste in a Federal repository.



2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the financial statements of the Nuclear Waste Fund (NWF) as of and for the year ended September 30, 1996, and have issued our report thereon dated January 10, 1997, except as to note 13, which is as of January 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the NWF is the responsibility of the NWF's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the financial statements and certain other laws and regulations designated by OMB and the Department of Energy (DOE):

- Nuclear Waste Policy Act
- Nuclear Waste Policy Amendments Act
- Federal Managers' Financial Integrity Act of 1982
- Budget and Accounting Procedures Act of 1950
- Prompt Payment Act
- Civil Service Reform Act of 1978
- Fair Labor Standards Act of 1938
- Federal Employees' Compensation Act
- Federal Employees' Health Benefits Act of 1959

However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such laws and regulations. Accordingly, we do not express such an opinion.

As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared the NWF's fiscal year 1996 FMFIA reports with the evaluation we conducted of the NWF's internal control structure.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the management of the Nuclear Waste Fund and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Part Manual LLP

January 10, 1997



2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on the Internal Control Structure

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the financial statements of the Nuclear Waste Fund (NWF) as of and for the year ended September 30, 1996, and have issued our report thereon dated January 10, 1997, except as to note 13, which is as of January 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the NWF is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements and any other laws and regulations that OMB, NWF management, or the Department of Energy have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property and other assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with generally accepted accounting principles and to maintain accountability over the assets; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the NWF as of and for the year ended September 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures, determined if they had been placed in operation, assessed control risk, and performed tests of the internal control structure. Our consideration included obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to (1) all significant cycles, classes of transactions, or account balances; and (2) the performance information control objective described in the previous paragraph. Our consideration of the internal control structure was conducted to determine our auditing procedures for the purposes of expressing our opinion on the financial statements, to determine whether the internal control structure meets the objectives identified in the previous paragraph, and not to provide an opinion on the internal control structure. Accordingly we do not express such an opinion.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of the relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregate of related performance data, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of the Nuclear Waste Fund, in a separate letter dated January 10, 1997.

This report is intended for the information of the management of the Nuclear Waste Fund and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

January 10, 1997